

LENAWEE TRANSPORTATION CORPORATION
FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2008
WITH
INDEPENDENT AUDITORS' REPORT

LENAWEE TRANSPORTATION CORPORATION

INDEPENDENT AUDITORS' REPORT

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

Our discussion and analysis of Lenawee Transportation Corporation's financial statements provides an overview of the Transportation Corporation's financial activities for the fiscal year ended September 30, 2008. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets provide information about the activities of the Transportation Corporation and present a long-term view of the Transportation Corporation's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Overview of the Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and supplementary information.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Transportation Corporation's overall financial status. These statements report information about the Transportation Corporation, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets regardless of when cash is received or paid. The two government-wide statements report the Transportation Corporation's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Transportation Corporation's financial health or position.
- The third statement is the Statements of Cash Flows which show the change in cash and cash equivalents presenting all activity of the Transportation Corporation on a cash basis.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by supplementary information that further explains and supports the information in the financial statements.

Reporting the Transportation Corporation as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets report information about the Transportation Corporation, as a whole, and about its activities in a way that helps answer the question of whether the Transportation Corporation, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Transportation Corporation's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for the Statement of Revenues, Expenses, and Changes in Fund Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Transportation Corporation's net assets and how they have changed. The reader can think of the Transportation Corporation's net assets (the difference between assets and liabilities) as one way to measure the Transportation Corporation's financial health or financial position. Over time, increases or decreases in the Transportation Corporation's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Transportation Corporation, you need to consider additional factors such as changes in the general economy and changes in the laws related to Federal and State transportation funding.

Fund Financial Statements

The Transportation Corporation has only one fund, the General Operating Fund, in which all of the Transportation Corporation's activities are accounted. The General Operating Fund is a business-type fund, which accounts for activities on a full accrual basis.

Financial Analysis of the Transportation Corporation as a Whole

The Transportation Corporation's net assets decreased approximately 24% from \$266,626 to \$202,596 for the year ended September 30, 2008. The net assets and change in net assets are summarized below.

Net Assets

The net assets decreased by \$64,030 during 2007-08. The primary reason for the decrease was fuel cost, which was \$91,581.

One new capital asset (copier) was purchased in fiscal year 2007-08.

Net assets for the years ended September 30, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Current assets	\$ 193,658	\$ 232,106
Capital assets	<u>56,554</u>	<u>77,805</u>
Total assets	<u>205,212</u>	<u>309,911</u>
Current liabilities	<u>47,616</u>	<u>43,285</u>
Total liabilities	<u>47,616</u>	<u>43,285</u>
Net assets:		
Invested in capital assets	56,554	77,805
Unrestricted	<u>146,042</u>	<u>188,821</u>
Total net assets	<u>\$ 202,596</u>	<u>\$ 266,626</u>

Changes in Net Assets

A summary of changes in net assets for the years ended September 30, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Revenues		
Operating revenue	\$ 144,552	\$ 143,343
Nonoperating revenue	<u>400,367</u>	<u>379,327</u>
Total revenues	544,919	522,670
Operating expenditures	<u>(608,949)</u>	<u>(557,098)</u>
Decrease in net assets	<u>\$ (64,030)</u>	<u>\$ (34,428)</u>

Budgetary Highlights

For the fiscal year of 2008, our most significant budget difference was in the cost of fuel. Unanticipated spikes in this cost were the highest percentage increases we have seen in history. More than 70% of our fleet is eligible for replacement, but without a state contracted vendor, we are not able to order replacement vehicles. With our aging fleet, parts and labor costs for maintenance had a considerable negative impact on our budget. We did receive a slight reduction in our insurance premiums. We also received more than \$11,000 in capital funding to offset maintenance expense (tires) which provided a positive impact on our budget. Financially, this has been the worst year Lenawee Transportation has experienced.

Capital Assets

As of September 30, 2008, the Transportation Corporation had invested \$884,479 in capital assets.

	<u>2008</u>	<u>2007</u>
Capital Assets Being Depreciated		
Equipment	\$ 97,854	\$ 95,315
Vehicles	<u>789,164</u>	<u>789,164</u>
Total capital assets	887,018	884,479
Total accumulated depreciation	<u>(830,464)</u>	<u>(806,674)</u>
Total net capital assets	<u>\$ 56,554</u>	<u>\$ 77,805</u>

Economic Factors and Next Year's Budget

For the fiscal year 2009, we are anticipating the State formula operating assistance to be estimated at 35.62 percent of eligible costs or the floor (minimum) which is equivalent to the state funds received in FY 1997. This minimum is contingent upon the level of local funds remaining the same. However, if the local funds are reduced, the state funds would be reduced proportionally. Based on our projected budget, our expected State formula operating assistance will continue at our floor. Our Federal Section 5311 operating assistance is anticipated at 16 percent of eligible expenses.

We are anticipating a slight increase in our ridership for the general public. We are expecting to maintain the same level of ridership for our contract riders. In an effort to increase our revenues, we have increased our contract rates. We will also be increasing our fare structure for the general public. Historically, this causes a temporary reduction in ridership, but we are hopeful that the increase will still have a positive impact for our budget.

We are anticipating \$10,000 in capital funding for maintenance equipment. We are also expecting \$15,000 in funding for additional capital items for our new facility. We are anticipating funding for replacement of our existing telephone system and new radio equipment for all of our vehicles, including the cost of the equipment antennas plus installation.

This financial report is designed to provide the citizens and other interested parties a general overview of the Transportation Corporation's finances and to show the Transportation Corporation's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Lenawee Transportation Corporation, 100 East Church Street, Michigan 49221.

To the Board of Directors
Lenawee Transportation Corporation
Adrian, Michigan

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the business-type activities of Lenawee Transportation Corporation, a Nonprofit Corporation, as of and for the years ended September 30, 2008 and 2007, which comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lenawee Transportation Corporation's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Lenawee Transportation Corporation, as of September 30, 2008 and 2007, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the Lenawee Transportation Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

To the Board of Directors
Lenawee Transportation Corporation
Adrian, Michigan

The management's discussion and analysis on pages i through iv is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that comprise Lenawee Transportation's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Lenawee Transportation Corporation. Such information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
December 15, 2008

December 15, 2008

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Lenawee Transportation Corporation
Adrian, Michigan

We have audited the financial statements of the business-type activities of Lenawee Transportation Corporation, a Nonprofit Corporation, as of and for the year ended September 30, 2008, which comprise Lenawee Transportation Corporation's basic financial statements and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Lenawee Transportation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a

December 15, 2008

To the Board of Directors
Lenawee Transportation Corporation
Adrian, Michigan

remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control over financial reporting. We considered the deficiency described as 2008-1 in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above as 2008-1, is not a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Lenawee Transportation Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Lenawee Transportation's response to the findings identified in our audit are described in the accompanying schedule of findings and response. We did not audit Lenawee Transportation's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management of Lenawee Transportation Corporation and federal and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

Adrian, Michigan
December 15, 2008

LENAWEE TRANSPORTATION CORPORATION

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2008

Finding 2008-1

Finding considered a significant deficiency

Criteria:

Effective for the year ended June 30, 2008, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2007), requires us to communicate in writing when a client requires assistance to prepare the footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition

Currently, the Lenawee Transportation Coordinator prepares the interim financial reports and assists the external auditor in the preparation of the annual audit report.

Cause

The Coordinator does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the footnotes to the financial statements.

Effect

Utilization of the external auditor in preparing the footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Recommendation

At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #112.

Client Response

We are aware of this deficiency and believe it is not cost beneficial in our situation to develop this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.

LENAWEE TRANSPORTATION CORPORATION

STATEMENTS OF NET ASSETS

September 30, 2008 and 2007

	<u>Business-Type Activity</u>	
	<u>General Operating</u>	
ASSETS	<u>2008</u>	<u>2007</u>
Current assets:		
Cash	\$ 126,563	\$ 156,333
Accounts receivable	19,776	20,215
Grants receivable	38,026	45,974
Interest receivable	422	648
Due from City	6,390	6,390
Prepaid expense	<u>2,481</u>	<u>2,546</u>
Total current assets	193,658	232,106
Capital assets:		
Equipment and vehicles, less accumulated depreciation	<u>56,554</u>	<u>77,805</u>
Total assets	<u>\$ 250,212</u>	<u>\$ 309,911</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 47,486	\$ 40,699
Due to State	<u>130</u>	<u>2,586</u>
Total current liabilities	<u>47,616</u>	<u>43,285</u>
Net assets:		
Invested in capital assets	56,554	77,805
Unrestricted	<u>146,042</u>	<u>188,821</u>
Total net assets	<u>\$ 202,596</u>	<u>\$ 266,626</u>

LENAWEE TRANSPORTATION CORPORATION

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

For the Years Ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues		
Demand response/semi-fixed	\$ 36,495	\$ 35,263
Contract fees	<u>108,057</u>	<u>108,080</u>
Total operating revenue	<u>144,552</u>	<u>143,343</u>
Regular service expenses (Schedule 4E(REG)	536,048	486,280
JARC service expenses (Schedule 4E (JARC)	<u>72,901</u>	<u>70,818</u>
Total expenses	<u>608,949</u>	<u>557,098</u>
Operating loss	<u>(464,397)</u>	<u>(413,755)</u>
Nonoperating revenue		
County operating assistance	45,000	44,875
South Central Michigan Works (JARC)	44,034	41,978
State operating assistance (ACT 51)	178,374	174,955
Federal contracts		
Section 5311 (operating)	78,435	75,453
Section 5311 (reimbursed maintenance)	12,049	7,520
Section 5311 (capital)	2,539	
Section 5316 (operating)	28,840	28,840
RTAP	1,691	649
Other revenue		
Interest income	4,302	5,057
Insurance reimbursement	<u>5,103</u>	
Total operating revenue	<u>400,367</u>	<u>379,327</u>
Net loss	(64,030)	(34,428)
Net assets – beginning of year	<u>266,626</u>	<u>301,054</u>
Net assets – end of year	<u>\$ 202,596</u>	<u>\$ 266,626</u>

LENAWEE TRANSPORTATION CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2008 and 2007

INCREASE (DECREASE) IN CASH

	<u>2008</u>	<u>2007</u>
Cash flows from operations:		
Cash received from farebox and contracts	\$ 144,991	\$ 137,972
Cash paid to suppliers and employees	<u>(578,308)</u>	<u>(469,687)</u>
Net cash used in operating activities	<u>(433,317)</u>	<u>(331,715)</u>
Cash flows from investing and related financing activities:		
Purchase of capital assets	(2,539)	
Capital grants	2,539	
Operating grants	393,916	364,749
Interest income	4,528	5,057
Other revenue	<u>5,103</u>	<u> </u>
Net cash provided by investing and related financing activities	<u>403,547</u>	<u>369,806</u>
Net increase (decrease) in cash	(29,770)	38,091
Cash at beginning of year	<u>156,333</u>	<u>118,242</u>
Cash at end of year	<u>\$ 126,563</u>	<u>\$ 156,333</u>

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired.

LENAWEE TRANSPORTATION CORPORATION

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2008 and 2007

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES

	<u>2008</u>	<u>2007</u>
Operating loss	\$ (464,397)	\$ (413,755)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	23,789	36,019
(Increase) decrease in:		
Accounts receivable	439	(5,371)
Prepaid expense	65	43,725
(Decrease) increase in:		
Accounts payable and accrued liabilities	<u>6,787</u>	<u>7,667</u>
Total adjustments	<u>31,080</u>	<u>82,040</u>
Net cash used in operating activities	<u>\$ (433,317)</u>	<u>\$ (331,715)</u>

LENAWEE TRANSPORTATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For financial reporting purposes, Lenawee Transportation Corporation (LTC) includes all funds and accounts that are controlled by the Corporation.

Lenawee Transportation Corporation is a primary governmental unit with no outside component units.

Lenawee Transportation Corporation is a Corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Corporation is governed by its own board whose members are appointed by the Lenawee County Board of Commissioners. The Corporation receives a portion of its funding from Lenawee County. Lenawee Transportation Corporation has a contract with Lenawee County to operate a transportation system in the County.

The accounting policies of Lenawee Transportation Corporation conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective October 1, 2003, Lenawee Transportation Corporation implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Basic Financial Statements – Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets) report information on the activities of the Corporation. Lenawee Transportation Corporation consists solely of a business-type activity; no governmental-type activity exists.

The financial statements are provided for the business-type fund which is the same as the governmental-wide financial statements.

The major individual fund (General Operating Fund) is reported in the financial statements.

LENAWEE TRANSPORTATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

LTC uses the accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available for use in current operations. Expenses are recorded when the liability is incurred.

LTC accounts for its operations in a manner similar to private business enterprises, where the intent of LTC is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis are financed through user charges, State and Federal grants, and County support. LTC is deemed to be an enterprise fund.

Cash and Investments – Cash and cash investments are considered to be cash on hand, demand deposits, and short-term investments (certificates of deposit) with a maturity of three months or less when acquired.

Fixed Assets and Depreciation – Fixed assets are stated at cost. Cost relating to maintenance and repairs are charged to expense. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: CONTRACT WITH SERVICE PROVIDER

Lenawee Transportation Corporation has contracted with Quick Service Transportation Company of Adrian, Michigan to operate the Lenawee Transportation system. The Corporation pays Quick Service \$338 per month for rental of a dispatch center and \$1,750 per month for administrative duties in fiscal year 2007-08, and makes reimbursement for all direct expenses of the Lenawee Transportation operation. The contract is renewed annually, including amendments for negotiated changes.

NOTE 3: CASH

At year end, the carrying value of the bank account was \$24,129 the bank balance was \$30,609 is fully insured by federal depository insurance. Also, there is a certificate of deposit of \$102,434, of which \$2,434 is not insured by federal depository insurance.

Lenawee Transportation Corporation invests only in instruments allowed under state law.

Lenawee Transportation limits its exposure to interest rate risk and credit rare risk by investing in conservative instruments like certificates of deposits with terms of six months or less. All investments are covered by federal depository insurance and so there is no exposure to custodial credit risk.

LENAWEE TRANSPORTATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE 4: CAPITAL ASSETS

Vehicles are stated at cost or fair market value at date of gift. The vehicles in use by the Lenawee Transportation program are purchased by the State. If the program should end, the vehicles would be returned to the State. The buses are depreciated over five years on a straight line basis. Rehabilitation costs of vehicles have also been capitalized and depreciated.

Computer equipment and radios have also been received from the State and are being depreciated over six and ten years, respectively, on a straight line basis.

Property assets on the balance sheet at September 30, 2008 and 2007 are:

	<u>Purchased with Capital Grants</u>	
	<u>2008</u>	<u>2007</u>
Equipment	\$ 94,092	\$ 95,315
Vehicle cost	<u>792,925</u>	<u>789,164</u>
	887,017	884,479
Less: Accumulated depreciation	<u>830,463</u>	<u>806,674</u>
Property assets	<u>\$ 56,554</u>	<u>\$ 77,805</u>

NOTE 5: PENSION PLAN

The Coordinator of Lenawee Transportation Corporation is covered by the defined benefit pension plan of Lenawee County - the Lenawee County Board of Commissioners Employees' Retirement Income Plan. Full disclosure of this plan is provided in the County of Lenawee's financial statements for the year ended December 31, 2007.

LENAWEE TRANSPORTATION CORPORATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE 5: PENSION PLAN (Continued)

Lenawee Transportation Corporation has made its required pension contributions to the County. The contribution for the year ended September 30, 2008 was \$7,004.

Employees of Quick Service are covered by a defined contribution pension plan using IRA accounts. However, no employees of Quick Service related to Lenawee Transportation are participating in this Plan.

NOTE 6: SICK AND VACATION PAY

Under existing general County rules and regulations, as a regular employee, the Coordinator accumulates eight (8) hours combined sick and vacation time for each two-week period. All accrued leave time will be paid by the County at time of termination or retirement in accordance with County policy. An accrual for unpaid leave time has been recorded at September 30, 2008 for \$4,566, which is included in accounts payable and other accrued liabilities on the statement of net assets.

NOTE 7: TRANSPORTATION AGREEMENT AND COST ALLOCATIONS

LTC provides semi-fixed route service to Lenawee County residents. The City of Adrian operates a separate service for City residents only. On September 17, 1984, LTC and the City of Adrian entered into an agreement to provide public transportation to both service areas by sharing in a transportation coordinator, clerical and support assistance, and office space.

Under the agreement, LTC pays the wages and fringe benefits of the transportation coordinator, and the City of Adrian provides the clerical and support assistance, and office space for LTC.

A formula has been worked out for the allocation of costs between Lenawee Transportation Corporation and the City of Adrian. This formula or allocation plan has been accepted by the Michigan Department of Transportation. Based on this plan, the allocated costs have been determined for the year. The difference in the allocated costs between the two units has been set up as a receivable or payable by the applicable unit. Also, in the settlement of eligible grant expenses (see Schedule 5) adjustments have been made for the allocation of administrative costs.

The JARC project (based on actual costs) is approved under contract 2007-0243/Z8 with the Michigan Department of Transportation.

LENAWEE TRANSPORTATION CORPORATION

NONURBAN SERVICE REVENUE REPORT

For the Years Ended September 30, 2008

	<u>Regular Service</u>	<u>JARC</u>	<u>Total</u>
Farebox revenue			
Demand response/semi-fixed	\$ 36,495	\$	\$ 36,495
Contract fares	108,057		108,057
Local revenue			
County operating assistance	45,000		45,000
South Central Michigan Works		44,034	44,034
State formula and contracts			
State operating assistance (ACT51)	178,374		178,374
Federal Contracts			
Section 5311 (operating)	78,435		78,435
Section 5311 (reimbursed maintenance)	12,049		12,049
Section 5311 (capital)	2,539		2,539
Section 5316 (operating)		28,840	28,840
RTAP	1,691		1,691
Other revenue			
Interest income	4,302		4,302
Insurance reimbursement	<u>5,103</u>	<u> </u>	<u>5,103</u>
Total Revenue	<u>\$ 472,045</u>	<u>\$ 72,874</u>	<u>\$ 544,919</u>

SCHEDULE 2

LENAWEE TRANSPORTATION CORPORATION

EXPENDITURES OF FEDERAL AND STATE GRANTS

For the Year Ended September 30, 2008

GRANTOR/PROGRAM TITLE	Federal CFDAs Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Year's Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. Department of Transportation Passed through Michigan Department of Transportation Federal Transit Administration Operating Assistance-Section 5311 Capital Grant - Section 5311 Capital Grant - Section 5311 Capital Grant - Section 5311 Capital Grant - Section 5311 Capital Grant - Section 5311 Operating Assistance (JARC)-Section 5316 Rural Transit Assistance Program (RTAP)	20.509	2007-0243/Z7	Formula	\$ 78,435	\$ 78,435	\$ -	\$ -	\$ -
	20.509	2002-0059/Z14	22,000				16,000	6,000
	20.509	2002-0059/Z17	188,000	8,000	8,000			180,000
	20.509	2002-0059/Z7/R1	18,000	6,588	5,270	1,318	9,206	-
	20.509	2007-0243/Z4	85,000					85,000
	20.509	2007-0243/Z5	82,000					82,000
	20.516	2007-0243/Z8	28,840	28,840	14,420	14,420		-
	20.215	N/A	3,000	1,691	1,691			-
				178,374		178,374		
	N/A	2008-0243	Formula					
Michigan Department of Transportation Operating Assistance - Act 51 - Nonurban				\$ 301,928	\$ 107,816	\$ 194,112	\$ 25,206	\$ 353,000
Totals								

LENAWEE TRANSPORTATION CORPORATION

EXPENSES BY GENERAL AND CONTRACT OPERATIONS

For the Year Ended September 30, 2008
 With Comparative Totals for the Year Ended September 30, 2007

	<u>Nonurban General Operations</u>	<u>JARC Section 5316 2007-0243/Z8</u>	<u>2008 Total</u>	<u>2007 Total</u>
Labor	\$ 220,241	\$ 32,053	\$ 252,294	\$ 244,904
Fringe benefits	54,669	24,200	78,869	75,677
Services	43,490	899	44,389	38,367
Materials and supplies consumed	140,883	7,371	148,254	99,509
Miscellaneous	5,257		5,257	3,679
Utilities	8,645	1,742	10,387	10,816
Casualty and liability insurance cost	35,754	5,900	41,654	44,072
Leases and rentals	3,320	736	4,056	4,055
Depreciation	<u>23,789</u>	<u></u>	<u>23,789</u>	<u>36,019</u>
	<u>\$ 536,048</u>	<u>\$ 72,901</u>	<u>\$ 608,949</u>	<u>\$ 557,098</u>

LENAWEE TRANSPORTATION CORPORATION

NONURBAN REGULAR SERVICE EXPENSE REPORT

For the Year Ended September 30, 2008
 With Comparative Totals for the Year Ended September 30, 2007

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>	2008 <u>Budget</u>	2007 <u>Total System</u>
Labor:						
Operators' wages	\$ 120,287	\$	\$	\$ 120,287	\$ 118,000	\$ 115,944
Other salaries and wages	54,779		45,174	99,953	96,800	97,097
Fringe benefits	28,717		18,947	47,664	47,800	45,040
Pension			7,004	7,004	6,570	6,793
Services:						
Other services	4,573	35,417	3,500	43,490	32,550	37,692
Materials and supplies consumed:						
Fuel and lubricants	91,581			91,581	54,580	59,388
Tires and tubes	10,680			10,680	9,330	7,250
Other materials and supplies	2,124	36,498		38,622	17,450	27,145
Miscellaneous:						
Travel and meetings	555		3,315	3,870	1,920	2,211
Advertising	106		756	862	800	817
Other	507		20	527	1,000	650
Utilities	8,645			8,645	8,750	9,035
Casualty and liability cost:						
Premium for public liability and property damage insurance	35,754			35,754	45,100	37,880
Leases and rentals	3,320			3,320	4,200	3,319
Depreciation	<u>23,789</u>	<u> </u>	<u> </u>	<u>23,789</u>	<u> </u>	<u>36,019</u>
Total expenses	385,417	71,915	78,716	536,048	445,650	486,280
RTAP expenses	<u> </u>	<u> </u>	<u>(1,691)</u>	<u>(1,691)</u>	<u> </u>	<u>(649)</u>
General operating expenses	<u>\$ 385,417</u>	<u>\$ 71,915</u>	<u>\$ 77,025</u>	<u>\$ 534,357</u>	<u>\$ 444,850</u>	<u>\$ 485,631</u>

LENAWEE TRANSPORTATION CORPORATION

JARC SERVICE EXPENSE REPORT

For the Years Ended September 30, 2008

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>2008 Total</u>
Labor:				
Operators' wages	\$ 32,053	\$	\$	\$ 32,053
Fringe benefits	24,200			24,200
Services:				
Other services		899		899
Materials and supplies consumed:				
Fuel and lubricants	5,743	210		5,953
Tires and tubes	153			153
Other materials and supplies		1,265		1,265
Utilities	1,742			1,742
Casualty and liability cost:				
Premium for public liability and property damage insurance	5,900			5,900
Leases and rentals	<u>736</u>	<u></u>	<u></u>	<u>736</u>
Total expenses	<u>\$ 70,527</u>	<u>\$ 2,374</u>	<u>=</u>	<u>\$ 72,901</u>

LENAWEE TRANSPORTATION CORPORATION
 NONURBAN SERVICE NONFINANCIAL REPORT
 For the Year Ended September 30, 2008

	<u>Regular Service</u>		<u>JARC</u>	
	<u>Transportation</u> <u>Mileage</u>	<u>Weekday</u> <u>Hours</u>	<u>Transportation</u> <u>Mileage</u>	<u>Weekday</u> <u>Hours</u>
<u>Demand – Response</u>				
First Quarter	50,882	2,120	10,219	396
Second Quarter	50,526	2,163	13,208	481
Third Quarter	56,199	2,422	10,664	396
Fourth Quarter	<u>50,440</u>	<u>2,529</u>	<u>8,328</u>	<u>275</u>
Total operation	<u>208,047</u>	<u>9,234</u>	<u>42,419</u>	<u>1,548</u>

The methodology used for compiling mileage and hours has been reviewed and found to be an adequate method for recording vehicle mileage and hours.

LENAWEE TRANSPORTATION CORPORATION

OPERATING ASSISTANCE CALCULATION

For the Year Ended September 30, 2008

	Federal Section 5311 2007-0243/Z7 <u>10-1-07 to 9-30-08</u>	State Operating Assistance <u>10-1-07 to 9-30-08</u>
Expenses:		
Labor	\$ 252,294	\$ 252,294
Fringe benefits	78,869	78,869
Services	44,389	44,389
Materials and supplies	148,254	148,254
Miscellaneous	5,257	5,257
Utilities	10,387	10,387
Casualty and liability costs	41,654	41,654
Leases and rental	4,056	4,056
Depreciation	<u>23,789</u>	<u>23,789</u>
Total expenses	608,949	608,949
Ineligible expenses:		
Less: Depreciation	(23,789)	(23,789)
Less: Audit fee	(3,200)	
Less: RTAP reimbursement	(1,691)	(1,691)
Less: JARC	(72,901)	(72,901)
Less: Capital grant reimbursing operating expense	(12,049)	(12,049)
Less: Insurance reimbursement	<u>(5,103)</u>	<u>(5,103)</u>
Net eligible expenses	<u>490,216</u>	<u>493,416</u>
Section 5311- Reimbursement – 16%	<u>\$ 78,435</u>	
State Operating Assistance – 36.1508% of eligible expenses or minimum floor - FY 1997 Act 51- \$174,955		<u>\$178,374</u>

LENAWEE TRANSPORTATION CORPORATION
NOTES OF INELIGIBLE EXPENSES AND REVENUES
For the Year Ended September 30, 2008

DEPRECIATION

Depreciation accrued by public operations is ineligible according to UMTA 9050.1A, page V-4.

RTAP REIMBURSEMENT

Expenses reimbursed on RTAP Program are not eligible costs under Act 51 and Federal Section 5311.

AUDIT FEE

Any transit agency that expends less than \$500,000 in Federal Funds must subtract their annual audit fee from eligible expenses under Section 5311.

CAPITAL GRANTS USED FOR OPERATING EXPENSES

Capital money used to pay for maintenance expenses are subtracted from eligible expenses.

JARC PROGRAM

Expenses related to the JARC Program are subtracted out as ineligible.

INSURANCE REIMBURSEMENT

Insurance proceeds to cover costs on bus accident are subtracted from eligible expenses.

LENAWEE TRANSPORTATION CORPORATION

COMMENTS AND RECOMMENDATIONS

For the Year Ended September 30, 2008

Significant findings in internal control are found on page 5 of this report. No other comments or recommendations were made for September 30, 2008.